

## **New Study Shows that Less than Half of All Spending on Prescription Medicines Goes to Brand Biopharmaceutical Companies**

Conversations about spending on prescription medicines are often misleading because they do not account for the significant rebates, discounts, and fees paid by brand biopharmaceutical companies or for the distribution costs involved in getting medications to patients. A new study by the Berkeley Research Group (BRG) analyzes the distribution and payment process for prescription medicines and estimates the share of spending realized by biopharmaceutical companies and other entities along the supply chain.

### **Brand biopharmaceutical companies realize less than half of total prescription medicine spending.**

- Accounting for the discounts, rebates and fees paid to PBMs, payers, and the government, BRG estimates that the U.S. spent a total of \$469 billion on prescription drugs in 2015, which includes spending on retail medicines and those provided in a hospital or physician's office. Brand biopharmaceutical companies realized only \$219B, or 47%, of this amount; the rest went to generic manufacturers or was retained as earnings by entities along the supply chain and other stakeholders.
- PBMs and payers—which dictate the terms of coverage for medicines—use their control over which medicines patients can access as leverage to negotiate substantial rebates and discounts. The statutory rebates, discounts, and fees biopharmaceutical companies are required to provide to government programs have increased in recent years due to an increase in the Medicaid rebate, closing of the Medicare Part D “donut hole” and a massive expansion of the 340B program.
- In 2015, brand biopharmaceutical companies realized just 39% of total gross drug spending, which is based off the list prices of medicines before rebates, discounts and fees are calculated. This is down from 41% in 2013 due to increases in the rebates and discounts paid to PBMs and payers. Increased rebates and discounts have largely offset increases in list prices and reflect the competitive market for brand medicines.
- Looking at spending for brand medicines alone, BRG estimates that brand biopharmaceutical companies retained 63% percent of gross spending for brand drugs in 2015.

### **Other stakeholders in the drug distribution and payment process—including wholesalers, pharmacies, PBMs, health plans, providers, and the government—realize a substantial share of gross drug spending.**

- 42% of gross drug spending is realized by entities other than biopharmaceutical companies, including amounts retained by supply chain entities (22%) and discounts transferred by biopharmaceutical companies to health plans, governments, and other payers through retrospective rebates, discounts, and fees (20%). Brand and generic biopharmaceutical companies realize the remaining 39% and 19% of gross drug spending, respectively.
- Little attention has been paid to the role of other stakeholders in the drug distribution and payment process. BRG's report sheds light into the roles played by PBMs, health plans, providers, and other entities and demonstrates that a large share of spending for prescription medicines accrues to stakeholders other than biopharmaceutical companies.

### **Patients are facing higher deductibles and increased coinsurance for brand medicines. Rebates and discounts biopharmaceutical companies pay to PBMs and payers do not directly reduce cost-sharing for these patients.**

- Unlike for hospital care or physician services, deductible and coinsurance payments for medicines are based on the gross cost, rather than the discounted net cost paid by the health plan. So, while rebates and discounts indirectly benefit patients by lowering insurance premiums, they are not consistently passed through to patients facing high cost-sharing at the pharmacy counter.
- In some cases, patient cost-sharing may exceed the price the health plan actually pays for a medicine. When this occurs, cost-sharing payments in excess of the medicine's cost are retained by health plans and PBMs—not by biopharmaceutical companies.

### **Contrary to claims of rapidly escalating costs for medicines, spending growth slowed substantially in 2016.**

- Prescription drug spending growth has slowed substantially in the last two years. Net spending growth in 2016 was in the low single digits, with growth rates between 2% and 4%. Future spending on prescription medicines is projected to grow at an average annual rate of 4% to 7%, in line with overall health spending growth.